



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION
U-46U

RECEIVED

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The Honorable Paul Simon
House of Representatives

Dear Mr. Simon:

Your July 1, 1976, letter requested that we review the U.S. Postal Service's use of the railroads for transporting the mails. Based on your letter and subsequent discussions with your staff, we focused our review on (1) why the Service's use of the railroads has declined, (2) what types of service the railroads are able to provide, and (3) whether the railroad industry is receiving an equitable opportunity to obtain mail transportation contracts.

We found that

- the Service's use of the railroads has declined primarily because of (1) reduction in available rail service, (2) growth of highway and air modes of transportation, (3) increased competition from private bulk mail carriers, and (4) establishment of mail delivery standards;
- the railroads are competing primarily in the movement of bulk mail; and
- the railroad industry is receiving an equitable opportunity to obtain mail transportation contracts.

Our review was performed at the Service's Headquarters. Additional information is provided below.

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BACKGROUND

The U.S. Postal Service spends hundreds of millions of dollars annually for rail transportation services provided by private firms. In fiscal year 1976, for example, the Service spent about \$722 million to move the mails by highway, air, rail, and water. About \$624 million of this amount was spent for highway, air, and water transportation services. The remaining monies, about \$98 million, were paid to the railroad industry. Currently there are 21 railroad companies holding contracts with the Service. (See encl. 1.)

Most of the rail expenditures (\$72 million) are for "piggyback" trailer services for the movement of bulk mail between the Service's bulk mail centers. Service officials estimated that in fiscal year 1976 the industry transported 117,000 of these trailers. The Service also uses baggage cars on 25 to 30 daily AMTRAK passenger trains to move first-class and time-value mail (such as newspapers and weekly magazines) between various cities. Between Washington, D.C., and New York there is a mail train with railway post office and baggage cars attached. The railway post office cars are used by Service employees to sort letter and priority mail while the trains are in transit.

As noted above, \$98 million or approximately 14 percent of Service mail transportation expenditures is to the railroads. Over the last 20 years there has been a major shift of mail transportation from rail to highway and air. The causes for this shift are discussed below.

USE OF RAIL SERVICE HAS DECLINED

In 1955 the Service spent about \$406 million on mail transportation. About \$287 million, or 73 percent, was for rail transportation services. The table below shows how the rail industry's share of the Service's expenditures for mail transportation has been declining.

Domestic Mail Costs
By Mode Of Transportation

<u>Fiscal year</u>	<u>Total</u>	<u>Rail</u>	<u>Highway</u>	<u>Air</u>	<u>Water</u>	<u>Percentage of rail to total</u>
----- (millions) -----						
1955	\$405.7	\$297.2	\$ 72.3	\$ 33.7	\$2.5	73
1960	491.0	341.3	96.1	50.0	3.7	69
1965	542.2	328.9	126.0	82.5	4.8	61
1970	576.2	184.8	221.4	165.0	5.0	32
1976	721.9	98.0	346.0	275.3	2.5	14

Service officials cite several interrelated factors to explain the decline in mail movement by rail. These include (1) reduction in available rail service, (2) growth of the airline and trucking industries, (3) increased competition from private bulk mail carriers, and (4) establishment of mail delivery standards.

Prior to 1950 the railroads provided the country with an extensive nationwide network of passenger service. At that time virtually all intercity mail traveled on passenger trains in baggage cars and railway post office cars. Only a small portion of mail was carried by air, and highway movement was generally limited to local hauls. During the 1950s the railroads began terminating much of their passenger service for economic reasons. By the early 1970s the network and frequency of passenger service had been greatly reduced. Since the Service normally did not have enough volume to justify a train consisting entirely of mail, it was forced to look to other modes of transportation.

During this same period the airline and trucking industries were growing. The airplane began replacing the train as the primary mode of long distance passenger travel, particularly after the introduction of commercial jet service in the late 1950s. As commercial air service grew so did the Service's use of this mode of transportation for moving long distance intercity mail. With the advent of the interstate highway system in the 1960s, long distance trucking operations became effective competitors of the

railroad industry, particularly from the standpoint of cost and available service. Today highway transportation accounts for nearly half of the Service's mail transportation expenditures.

In recent years private firms have been able to compete with the Service in delivering bulk mail. For example, in fiscal year 1976, the parcel post volume of the Service's principal competitor, United Parcel Service, was about triple that of the Service. Competition has reduced the Service's need for bulk mail transportation--the major service being provided by the railroads. Though private competition has reduced the amount expended by the Service for rail transport, private carriers do use the rails. A United Parcel Service official stated that about \$50 million was spent by his company on rail transportation in calendar year 1975.

With the inception of the Postal Service in July 1971, the Postmaster General established delivery standards for each class of mail. These standards have made time the primary factor in selecting a transportation mode, generally eliminating rail as a potential mode for transporting first-class and time-value mail. For example, the Service's delivery standard for first-class mail varies from one to three days depending upon the distance to the destination. For long distances, such as coast to coast, the only mode which gives the Service enough time to process and deliver first-class mail within these time constraints is air.

For all classes of mail, the delivery standards have generally resulted in elimination of rail transportation over short distances. This is because time consuming and costly railway terminal handling occurs regardless of the distance traveled. The mail must be transported between the rail terminals and the processing centers. By using highways the Service can move mail directly from one processing center to another.

RAILROADS ARE COMPETITIVE
IN LONG DISTANCE BULK MAIL

When selecting surface transportation for bulk mail, the Service usually chooses either rail or highway. For large volumes and long distances, rail is usually the most economical mode of transportation. It is also more advantageous when there is an imbalance in mail flow--more mail moving in one direction than the other. This is

because railroads are paid on a per trip basis, whereas highway transport is paid for on a roundtrip basis even if the trailer is empty on the return trip.

Most of the Service's expenditures for rail service are for shipping of nonpreferential second- or third-class and fourth-class mail between bulk mail centers. Service officials maintain that long distance piggyback movement is the best area for the railroads to obtain transportation contracts. The Chairman of the Railroad Mail Committee of the Association of American Railroads confirmed that the railroads' primary market potential with the Service is in the handling of bulk mail.

In fiscal year 1976 Service costs for transportation between bulk mail centers were about \$115 million. About \$72 million, or 63 percent, was paid to the railroads for their piggyback services.

RAILROADS RECEIVE EQUITABLE OPPORTUNITY

To determine whether railroads are treated fairly, we reviewed the Service's decisions on transportation modes for bulk mail and analyzed selected highway transportation schedules to determine if railroad transportation would have been a viable alternative.

How a transportation mode is selected

The need for bulk mail transportation services originates at the bulk mail centers. The transportation needs are submitted to headquarters for the actual planning and bid solicitation. The mode to be used is selected before a solicitation is made.

Service officials stated that there are no formal policies or procedures delineating how a mode for bulk mail transport is selected, and there is no documented analysis of the decisions. They state, however, that maintaining delivery standards is the most important factor. These standards range from 3 to 7 days, depending on the distance to the destination. Secondary factors are cost, balance of traffic, volume of traffic, and distance to be traveled. If the volume of mail is large and the distance to be traveled is greater than 300 miles, rail will probably be used if the Service can use the existing rail schedules and still meet the delivery standards.

When the Service contracts for highway transportation, it dictates the time schedules for moving the mail. With rail transport, the Service does not have such flexibility, because it normally does not have the volume to warrant a change in rail schedules. Service officials use the Official Railway Guide to obtain current schedules and confirm them with railroad personnel.

When the Service makes a decision to contract for transportation, solicitations are sent to all individuals and firms whose names are on the Service's bidders list. To get on the bidders list an individual or firm needs only submit a form to the Service stating the type of transport it can provide and the area of the country it is interested in servicing. The Chairman of the Railroad Mail Committee stated that the railroads had no trouble getting on bidders lists or obtaining copies of solicitations which might be of interest to them.

No indication that highway is used
when rail can provide adequate service

As stated earlier, the Service has no formal policies or procedures describing how a particular mode is to be selected, and there is no documented analysis supporting the decisions made. Service officials assured us that no particular mode is favored, and the Chairman of the Railroad Mail Committee could not identify any instances of railroads being treated unfairly.

Since the railroads' greatest potential for contracts with the Service is in the long haul of bulk mail, we examined the 18 longest highway trips presently used by the Service to determine if rail service would be an alternative. We obtained the rail schedules for the 18 trips from a railroad representative and analyzed them to see if the Service could still meet its delivery standards. On 12 of the 18 routes the existing rail schedules require from 24 to 72 hours longer than the delivery standards permit. Because the delivery standards are the primary criteria in mode selection, rail is not a viable alternative.

On the remaining six routes delivery standards could be met in one direction but not the other. Service officials explained that although rail transport would meet the delivery standards in one direction, highway transport would still be necessary in the other direction.

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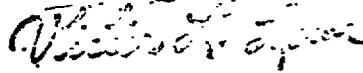
Because highway transport is paid for on a roundtrip basis, it would not be cost effective to split the transportation between highway and rail.

There are other indications that the Service is using rail service when possible. For example, a large number of trips between bulk mail centers involve a combination of highway and rail service. On some routes the mail moves part of the distance by highway and the remainder by rail. In other cases both modes are used to move mail from one facility to another with rail being used when delivery standards can be met.

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The Service agrees with the information contained in this report. If we can be of further assistance, please let us know.

Sincerely yours,



Victor L. Lowe
Director

Enclosure

ENCLOSURE I

ENCLOSURE I

RAILROADS HOLDING CONTRACTS
WITH THE U.S. POSTAL SERVICE

JANUARY 1977

AMTRAK

Atchinson, Topeka & Santa Fe
Boston & Maine

CONRAIL

Chicago, Milwaukee, St. Paul & Pacific

Chicago and Northwestern

Chicago Rock Island & Pacific

Denver & Rio Grande Western

Delaware & Hudson

Florida East Coastline

Grand Trunk Western

Illinois Central Gulf

Missouri Pacific

Norfolk & Western

St. Louis-San Francisco

Seaboard Coast Line

Soo Line

Southern Pacific

Southern Railway

Union Pacific

Western Pacific